

2006-2007 ANNUAL REPORT

GENERAL FUND EXPENDITURE PERFORMANCE

The General Fund expenditure performance for 2006-2007 is discussed in detail in this section. This includes an overview of the General Fund expenditure performance, a discussion of significant departmental variances, highlights of the non-departmental expenditures, and a review of overtime performance.

Overview

The following table details actual 2006-2007 General Fund expenditures as compared with the modified budget estimates:

TABLE B
2006-2007 GENERAL FUND EXPENDITURE SUMMARY
COMPARISON OF BUDGET TO ACTUAL
(In 000s)

Category	Modified Budget*	Actual**	Variance	% Variance
<i>Personal Services</i>	\$ 557,497	\$ 543,684	\$ 13,813	2.5%
<i>Non-Personal/Equipment/Other</i>	116,869	105,817	11,052	9.5%
<i>City-Wide Expenses</i>	150,214	102,494	47,720	31.8%
<i>Capital Contributions</i>	28,970	12,657	16,313	56.3%
<i>Transfers</i>	29,459	29,459	-	0.0%
<i>Reserves</i>	158,726	-	158,726	100.0%
TOTAL GENERAL FUND	\$ 1,041,735	\$ 794,111	\$ 247,624	23.8%

* 2006-2007 appropriations as modified by Council through June 30, 2007, plus 2005-2006 carryover encumbrances

** actual 2006-2007 expenses plus encumbrances

General Fund expenditures and encumbrances through June 30, 2007 totaled \$794.1 million. This expenditure total was up \$52.2 million, or 7.0%, from the June 2006 level of \$741.9 million, but was \$247.6 million below (down 23.8%) the modified budget total of \$1.04 billion. Excluding \$158.7 million in reserves, the remaining savings were \$88.9 million (10.1%).

The largest single category of savings occurred, as planned, in the Reserves category (\$158.7 million). The most significant reserves remaining at year-end included the following: Contingency Reserve (\$28.8 million); Salaries and Benefits Reserve (\$28.2 million); Development-Related Activities Reserves (\$15.3 million); 2007-2008 Future Deficit Reserve (\$10.6 million); Workers' Compensation Reserve (\$10.0 million); Enhanced Park Maintenance Reserve (\$7.0 million); and Future Capital Projects (FF&E) Reserve (\$6.8 million). Additional, detailed discussion of the reserve status can be found later in this section of the document.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Overview (Cont'd.)

Personal Services expenditures ended the year \$13.8 million (2.5%) below the budgeted level. This level of savings is slightly above the following levels experienced in recent years: 2005-2006 at 2.2%; 2004-2005 at 1.3%; 2003-2004 at 0.8%; 2002-2003 at 1.1%; 2001-2002 at 1.8%; 2000-2001 at 2.1%; and 1999-2000 at 1.5%. The majority of personal services savings were generated by five departments: Parks, Recreation and Neighborhood Services (PRNS) (\$3.3 million); Police (\$2.1 million); Fire (\$2.0 million); Planning, Building and Code Enforcement (\$1.4 million); and Transportation (\$1.2 million). The Personal Services savings in all departments were primarily generated from vacant positions, reflecting the impact of the continued hiring freeze, in place since 2001. It should be noted, however, that of the \$13.8 million in personal services savings, \$875,000 was rebudgeted to 2007-2008 as part of the Adopted Budget and an additional \$2.4 million is recommended to be rebudgeted as part of this document. Factoring out those rebudgets, personal services savings totaled \$10.6 million, or 1.9%, in the range of that experienced in recent years.

General Fund Non-Personal/Equipment/Other¹ expenditures and encumbrances ended the year at \$105.8 million, generating savings from the budgeted level of approximately \$11.1 million (9.5%). The majority of savings in this category were generated by the following departments: Planning, Building, and Code Enforcement (\$2.0 million); Transportation (\$1.8 million); Information Technology (\$1.5 million); Police (\$1.3 million); and Library (\$0.9 million). A portion of these savings (\$6.3 million) was rebudgeted into 2007-2008 as part of the Adopted Operating Budget and an additional \$0.6 million is recommended to be rebudgeted as part of this document. Excluding these rebudgets, adjusted Non-Personal/Equipment/ Other savings total approximately \$3.8 million (3.2%).

It should also be noted that in 2006-2007, departments actually generated savings above the 2-3% levels (adjusted for rebudgets) for personal services and non-personal/equipment. As has been the practice for the past several years, Cost/Position Management Plans were implemented in 2006-2007 to reduce costs and generate savings that could be used for the next annual budget process. All General Fund departments were assigned a 1.5% current year reduction target, with the exception of the Fire Department, Police Department, the Office of Emergency Services, and the Independent Police Auditor. These Public Safety Departments and Offices were assigned a 0.5% reduction target. Based on the departmental submittals, the departmental budgets were reduced by \$4.2 million during the 2006-2007 Mid-Year Budget Review. Even with reduced budgets, as reflected in Table D found later in this section, significant departmental savings were still achieved by year-end. Those departments with significant variances beyond those expected are discussed later in this document.

¹ The "Other" category expenditures are primarily comprised of budgets for the Mayor and City Council, Library Department grants program and the Parks, Recreation and Neighborhood Services fee activities program.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Overview (Cont'd.)

In the City-Wide category, expenditures ended the year \$47.7 million below the budgeted level. Of this amount, \$38.7 million, was rebudgeted as part of the 2007-2008 Adopted Budget. Additional net adjustments totaling \$3.1 million are also recommended as a result of the year-end review, including additional rebudgets, and downward adjustments to those appropriations that did not generate the amount of savings required to support rebudgets already approved. Factoring out all rebudget adjustments, City-Wide savings totaled \$5.8 million at year-end. These savings were spread among many appropriations as discussed later in this section.

In the Capital category, \$16.3 million remained unexpended at year-end. A large portion (\$9.3 million) was rebudgeted as part of the 2007-2008 Adopted Budget. An additional net total of \$6.1 million is recommended for rebudget as part of this report. After adjusting for rebudgets, the net savings in the General Fund Capital category was only \$840,000.

In addition to comparing actual expenditures to the modified budget, it is important to compare actual expenditures to the estimates used in formulating the 2006-2007 ending fund balance/2007-2008 beginning fund balance estimate for the 2007-2008 Adopted Budget. This comparison is used to determine the adjustment necessary to 2007-2008 budget. An upward adjustment to the 2007-2008 Beginning Fund Balance is possible because expenditures ended the year below the estimates used in the budget development process.

As shown in Table C, the actual General Fund Expenditures, Transfers, and Reserves of \$794.1 million were approximately \$43.2 million below (5.2%) the estimated level. A significant portion of this savings (\$8.5 million) has been carried over to 2007-2008 with the accompanying revenue for grant or reimbursement-related projects and programs. In addition, \$13.5 million is recommended to be rebudgeted as part of this document. As a result, net General Fund savings after these adjustments are \$21.2 million or 2.5%. Recommendations on the allocation of these additional funds is provided in this document.

TABLE C
2006-2007
EXPENDITURE ESTIMATE TO ACTUAL VARIANCES
(In 000s)

Category	Estimate	Actual	Variance	% Variance
<i>Expenditures</i>	\$ 806,408	\$ 764,652	\$ 41,756	5.2%
<i>Transfers</i>	29,459	29,459	-	0.0%
<i>Reserves</i>	1,399	-	1,399	100.0%
<i>Total</i>	\$ 837,266	\$ 794,111	\$ 43,155	5.2%

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Review of General Fund Expenditure Performance

This section provides more detailed information on the departmental and non-departmental performance, including a discussion of significant variances.

Departmental costs (\$649.5 million) represented approximately 81.8% of total 2006-2007 General Fund expenditures. As can be seen in Table D on the following page, all departments remained within their total budget allocation and expended a cumulative 96.3% of their budgets, generating overall savings of 3.7%. Of the twenty-one City departments/offices, ten had expenditure savings of less than 5%. These ten departments, which represent almost half of all departments, generated \$8.5 million (34%) of the savings. Six departments, or 29% of all departments, had expenditure savings between 5% – 10% and generated \$11.6 million (47%) of the savings. The remaining five departments, or 24% of all departments, had expenditure savings over 10% and generated \$4.8 million (19%) of the savings.

In 2006-2007, the following eight departments had expenditure savings in excess of \$1 million: Fire; Information Technology; Library; Mayor and City Council; Park, Recreation and Neighborhood Services; Planning, Building and Code Enforcement; Police; and Transportation. A portion of the savings in several of these departments, however, were previously rebudgeted as part of the Adopted Budget and/or are being recommended to be rebudgeted as part of this document.

Those departments with General Fund expenditure variances over 5.0% and a minimum value of \$400,000 are discussed in detail in the following section. In addition, the year-end status of expenditures for both the Police and Fire Departments are also summarized.

Non-departmental expenditures totaled \$144.6 million, or 18.2% of the total 2006-2007 General Fund expenditures. In this category, 69.3% of the amount budgeted (excluding reserves) was expended. The reserves represent the largest portion of the unexpended funds and are being carried over or utilized in 2007-2008 as planned. It is also important to note that the majority of savings in the City-Wide Expenses and Capital Contributions categories also have been or are recommended in this document to be rebudgeted to the new fiscal year for their originally intended uses.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Review of General Fund Expenditure Performance (Cont'd.)

TABLE D
2006-2007 GENERAL FUND EXPENDITURES (In \$000s)

Departmental	2006-2007 Modified Budget	2006-2007 Expenditures	Variance	% Variance
City Attorney	\$ 14,805	\$ 13,969	\$ 836	5.6%
City Auditor	2,622	2,380	242	9.2%
City Clerk	3,753	3,716	37	1.0%
City Manager	9,610	9,271	339	3.5%
Economic Development	5,435	5,263	172	3.2%
Emergency Services	503	413	90	17.9%
Environmental Services	1,969	1,682	287	14.6%
Finance	11,221	10,451	770	6.9%
Fire	129,559	127,314	2,245	1.7%
General Services	21,693	21,189	504	2.3%
Human Resources	6,916	6,598	318	4.6%
Independent Police Auditor	769	767	2	0.3%
Information Technology	17,994	15,707	2,287	12.7%
Library	28,227	27,041	1,186	4.2%
Mayor & City Council	8,695	6,695	2,000	23.0%
Parks, Recreation & Neighborhood Svcs	64,515	61,104	3,411	5.3%
Planning, Building & Code Enforcement	36,556	33,220	3,336	9.1%
Police	263,302	259,901	3,401	1.3%
Public Works	10,434	10,186	248	2.4%
Redevelopment Agency	1,408	1,248	160	11.4%
Transportation	34,380	31,386	2,994	8.7%
Subtotal	674,366	649,501	24,865	3.7%
Non-Departmental				
City-Wide Expenses	150,214	102,494	47,720	31.8%
Capital Contributions	28,970	12,657	16,313	56.3%
Transfers	29,459	29,459	-	0.0%
Earmarked Reserves	101,850	-	101,850	100.0%
Contingency Reserve	28,767	-	28,767	100.0%
Ending Fund Balance	28,109	-	28,109	100.0%
Subtotal	367,369	144,610	222,759	60.6%
TOTALS	\$ 1,041,735	\$ 794,111	\$ 247,624	23.8%

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Discussion of Significant Departmental Variances and Other Issues

Following is a discussion of those departments with significant variances and a summary of the performance in the City's two largest General Fund departments, Police and Fire.

- *City Attorney*

The City Attorney's Office expended 94.4% of its General Fund appropriation with resulting savings of \$836,000. The majority of this variance is related to Personal Services expenditures, which were 4.7% below (\$558,000) budgeted levels as a result of salary savings due to vacant positions and minimal overtime usage. Non-Personal/Equipment expenditures ended the year 9.1% below (\$278,000) budgeted levels. A portion (\$100,000) of this savings was rebudgeted in the 2007-2008 Adopted Budget for the City's Standard Plans and Specifications Project that could not be completed in 2006-2007. An additional \$100,000 in savings is recommended for rebudget in this document to cover higher than anticipated contract costs for this project. The goal of the project is to revise the Standard Plans and Specifications and other construction document specifications to increase standardization in the Public Works contracting process, to enable the City to more efficiently prepare bid packages, and to potentially reduce the number of disputes on Public Works projects.

- *Finance Department*

The Finance Department expended 93.1% of its General Fund Budget with resulting savings of \$770,000. Personal Services expenditures were 7.5% below (\$721,000) budgeted levels as a result of substantial salary savings due to vacant positions. The Department's Non-Personal/Equipment budget was 96.9% expended, with year-end savings of \$49,000.

- *Fire*

At the end of 2006-2007, the Fire Department had expended 98.3% of its total modified budget of \$129.6 million, with resulting savings of \$2.25 million. The Personal Services appropriation of \$122.5 million was 98.4% expended, with savings of \$2.0 million, primarily due to overtime savings and vacancy savings in the Fire Development Fee Program. A portion of the overtime savings was generated from a Fire Engineer Academy that did not occur in 2006-2007. The overtime allocation for the Fire Engineer Academy (\$233,600) was rebudgeted to 2007-2008 and the savings from the Development Fee Program are recommended in this document to be added to the Fire Fee Reserve to reconcile actual fee program expenditures and revenues for 2006-2007.

Overtime expenditures of \$8.5 million ended the year \$2.7 million below the modified budget level of \$11.2 million, offset by overages of \$809,000 in full-time salaries. Overtime

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Discussion of Significant Departmental Variances and Other Issues (Cont'd.)

- *Fire (Cont'd.)*

usage is largely attributed to fulfilling minimum staffing requirements. A lower than estimated level of sworn absences and vacancies experienced during the year resulted in lower overtime usage, and higher full-time salary costs. Fire's relief to overtime balance will be revisited, and adjustments made as appropriate, through the annual overtime report to the Public Safety, Finance and Strategic Support Council Committee scheduled for January 2008.

The Fire Department ended 2006-2007 with a total of 254 filled paramedics (159 front-line, 5 Supervisors, and 90 support), well above the 147 front line medics that are necessary to fully staff all apparatus. Of the 25 Firefighters that graduated from the April 2006 Academy in August 2006, 23 Firefighters completed their paramedic accreditation through June 2007. Of 29 Firefighters that began the January 2007 Academy, 26 successfully graduated in April 2007. These Firefighters are projected to secure paramedic accreditation by August 2007. In order to maintain the appropriate staffing levels necessary, a 17-week Firefighter/Paramedic Academy consisting of 25 recruits began April 30, 2007.

The Department's Non-Personal/Equipment budget was 96.5% expended, with year-end savings of \$247,000. A portion (\$89,000) of this savings was rebudgeted to 2007-2008 for Fire's Development Services Fee Program, including: Third Party Plan Check (\$30,000), Risk-Based Inspection Consultant (\$40,000), and Inspection Vehicle (\$19,000).

- *Information Technology*

The Information Technology Department expended 87.3% of its General Fund Budget with resulting savings of \$2.3 million. Personal Services expenditures were 7% below budgeted levels (\$768,000) as a result of salary savings due to vacant positions. Non-Personal/Equipment expenditures and encumbrances were 21.5% below budgeted levels (\$1.5 million). Almost all of these savings have been recommended to be rebudgeted to the current year. In December 2006, \$1.4 was reallocated from the Technology Reserve to the Information Technology Non-Personal/Equipment to stabilize day-to-day operations, fund information security and network architecture audits, provide training to technology staff, and prepare an RFP for content management technical architecture. However, due to delays in the RFP process, contracts will now be awarded in 2007-2008. The resulting non-personal/equipment savings were therefore rebudgeted to 2007-2008 as part of the Adopted Budget. Excluding rebudgets, total non-personal/equipment savings in the Information Technology Department totaled \$386,000. A portion of this savings (\$284,000) was realized as the result of renegotiation of the managed services contract.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Discussion of Significant Departmental Variances and Other Issues (Cont'd.)

- *Parks, Recreation and Neighborhood Services*

The Parks, Recreation and Neighborhood Services Department expended 94.7% of its General Fund budget with a resulting savings of \$3.4 million. Personal Services expenditures were 7.5% (\$3.3 million) less than budgeted as a result of salary savings from vacant positions. The department retained an average of over 100 vacant benefited positions throughout the year (16%). Although a substantial number of positions were filled in the course of the year, the vast majority of the appointments were from existing employees in the department, thus the impact of the hiring activity on the number of vacancies in the department was negligible. The Parks, Recreation and Neighborhood Services Department expects to substantially reduce the number of vacancies in 2007-2008 through additional resources devoted to the hiring process. Non-Personal/Equipment expenditures and encumbrances were on the other hand 99.7% expended and the Fee Activities category was 97.3% expended.

- *Planning, Building and Code Enforcement*

The Planning, Building and Code Enforcement Department (PBCE) expended 91.0% of its General Fund budget, with resulting savings of \$3.3 million. By budget category, \$1.37 million of the savings was in Personal Services and \$1.96 million was in Non-Personal/Equipment. The majority of the Personal Services savings was in the Development Fee Program (\$850,000) and Community Code Enforcement (\$266,000) due to vacant positions. The savings in the fee program are recommended in this document to be added to the Fee Reserves as part of the process to reconcile actual fee program expenditures and revenues for 2006-2007.

A large portion of the Non-Personal/Equipment savings (\$1,085,000) was anticipated and rebudgeted to 2007-2008. The following projects were included in that rebudget amount: Customer Service and Facility Improvements (\$245,000), Building and Code Enforcement fee funded vehicles (\$206,000), Development Services Website and Computer Related Equipment and Services (\$200,000), Contractual Plan Check (\$150,000), Multiple Housing and Off-Sale Alcohol Database Conversion (\$134,000), Architectural Review Committee (\$70,000), Comprehensive Study of Tow Services and Rates (\$50,000), Building Code Books (\$20,000), and Address Database Update (\$10,000). In addition, a portion of the savings in Non-Personal/Equipment is the result of the planned decrease in expenditures in development-related areas (\$603,000).

When comparing the program revenues and expenditures for the Building and Planning Fee Programs, an excess of \$233,000 was realized in the Building Fee Program, while a shortfall

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Discussion of Significant Departmental Variances and Other Issues (Cont'd.)

- *Planning, Building and Code Enforcement (Cont'd.)*

of \$603,000 occurred in the Planning Fee Program. The excess in Building is proposed in this document to be used to reduce the revenue estimate for Building revenues in 2007-2008. A downward adjustment to the Planning Fee Reserve is proposed in this document to reflect the Planning Fee Program shortfall.

- *Police*

Overall, the Police Department expended 98.7% of its total modified budget with resulting savings of \$3.4 million through year-end. Approximately \$2.1 million of the savings was in the Personal Services category. Full-time salary expenditures of \$168.0 million were 1.0% above the modified budget of \$166.4 million; however, this overage was offset by fringe benefit expenditures of \$18.3 million that were 10.0% below the \$20.4 million modified budget. Overtime expenditures of \$8.9 million were 6.0% below the modified budget of \$9.5 million; however, \$400,000 of the savings was reserved for Orange Alert overtime staffing at the airport. Proactive management of overtime enabled the Department to keep expenditures below the budgeted allocation; however, compensatory time balances for sworn personnel continued to increase significantly. The compensatory time balance at year-end for sworn personnel totaled 240,215. This balance represented a 4.5% increase compared to the 2005-2006 total sworn compensatory time balance of 229,808 hours.

In accordance with the Memorandum of Agreement (MOA) with the Police Officers Association, sworn personnel are able to maintain 240 hours of compensatory time. Sworn personnel with compensatory time balances that exceed 240 hours at the end of the last pay-period of the calendar year are required to reduce those balances to within the 240-hour limit within 150 days. Sworn employees were able to reduce 58.1% of the hours in excess of the 240-hour limit; however, 73 sworn employees were unable to fully implement their compensatory time reduction plans within the 150-day period. The majority of these personnel were still able to significantly reduce their excess balances, while some employees subsequently retired or were on leave (disability or military), or were unable to reduce their balances due to workload demands or staffing shortages and, as a result, were unable to use their compensatory time. At the end of the reduction period, 10,522 excess hours remained for these 73 personnel. The Police Department will continue to monitor the balance and, to the extent possible, implement measures to curb the level of compensatory time accrued.

The Department's Non-Personal/Equipment budget was 94.1% expended and encumbered, with savings of \$1.3 million. Police vehicle replacement savings of \$491,000 and vehicle

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Discussion of Significant Departmental Variances and Other Issues (Cont'd.)

- *Police (Cont'd.)*

operations and maintenance cost savings of \$528,000 accounted for a significant portion of the overall Non-Personal/Equipment savings.

Of the \$3.4 million in Police Department savings, \$1.9 million was rebudgeted as part of the 2007-2008 Adopted Budget. A significant portion of this rebudget (\$1.3 million) was implemented to ensure that the Police Department had sufficient funding for its Sworn Hire Ahead Program that is designed to hire and train sworn personnel before vacancies occur to ensure that street-ready officers are available to fill vacancies. An additional \$1.0 million in savings is recommended to be rebudgeted to 2007-2008 as part of this document. The largest portion of this recommended rebudget (\$762,000) would augment personal services funding for the Sworn Hire Ahead Program. The Budget Office will work closely with the Police Department staff to determine the appropriate funding needed for the Sworn Hire Ahead Program.

- *Transportation*

The Department of Transportation (DOT) expended 91.3% of its General Fund budget, with resulting savings of \$3.0 million. Personal Services expenditures were 5.5% (\$1.2 million) less than budgeted, due to salary savings from vacant positions. On average, DOT had 73 vacancies in their department (15.3%), and of the 73 vacancies, 33 positions were funded by the General Fund. Non-Personal/Equipment expenditures and encumbrances were 13.6% (\$1.8 million) below budgeted levels primarily because the \$2.0 million that had been set aside to cover anticipated prior year electric bills was determined not to be necessary. DOT worked with Pacific Gas and Electric to verify whether any outstanding electric bills remained. Based on this analysis, it was determined that this funding was not needed. In addition, DOT had savings in vehicle operations and maintenance costs (\$213,000) and savings in equipment and vehicle rental costs (\$213,000) due to lower than anticipated usage of vehicles, resulting from vacancies in the department. These savings are offset by above budgeted expenditure levels for supplies and materials (\$648,000).

A small portion (\$5,000) of the unexpended Non-Personal/Equipment funds is recommended elsewhere in this report as a rebudget for material costs for the Neighborhood Automated Speed Compliance Program (NASCOP). NASCOP was eliminated as part of the Adopted Operating Budget, and there is currently signage in approximately 177 neighborhoods that references the radar enforcement of NASCOP. This additional funding will replace the existing signage with speed compliance warning signs.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Highlights of Non-Departmental Expenditures and Variances

The non-departmental categories consist of City-Wide Expenses, Capital Contributions, Transfers from the General Fund, Earmarked Reserves, and the Contingency Reserve. An overview of the expenditure performance in these categories is provided below:

TABLE E
2006-2007
NON-DEPARTMENTAL GENERAL FUND EXPENDITURES
(In \$000s)

Category	Modified Budget	Actual	Variance	% Variance
<i>City-Wide Expenses</i>	\$ 150,214	\$ 102,494	\$ 47,720	31.8%
<i>Capital Contributions</i>	28,970	12,657	16,313	56.3%
<i>Transfers</i>	29,459	29,459	-	0.0%
<i>Earmarked Reserves</i>	129,959	-	129,959	100.0%
<i>Contingency Reserve</i>	28,767	-	28,767	100.0%
Total	\$ 367,369	\$ 144,610	\$ 222,759	60.6%

- *City-Wide Expenses*

A total of 68.2% of the General Fund appropriation for City-Wide Expenses was expended, resulting in a significant savings level of \$47.7 million. Approximately 81.1% of this amount (\$38.7 million) was rebudgeted as part of the 2007-2008 Adopted Budget. Additional net adjustments of the remaining amount totaling \$3.1 million are also recommended as a result of the year-end review, including additional rebudgets, downward adjustments to those appropriations that did not generate the amount of savings required to support rebudgets already approved, and revenue-related increases. Details of additional individual projects recommended for rebudget, rebudget adjustments, and other appropriation adjustments are shown in Section III.

After accounting for only the rebudgets already approved (\$38.7 million), and those recommended in this report (\$3.1 million, net of other adjustments), net savings in the City-Wide Expenses category totals approximately \$5.8 million. A discussion of the performance in each City Service Areas is provided below:

Community & Economic Development – 2006-2007 budget to actual savings realized in this category were \$6.8 million. The 2007-2008 Adopted Budget included rebudgets totaling \$5.7 million, the most significant of which were \$2.0 million for Coyote Valley Specific Plan and EIR, and \$875,000 for the Comprehensive General Plan Update. Additional net

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Highlights of Non-Departmental Expenditures and Variances (Cont'd.)

- *City-Wide Expenses (Cont'd.)*

adjustments are recommended as part of this report totaling \$63,000 and include, but are not limited to, additional unspent funds for the San José Grand Prix (\$175,000) to address project close-out costs, Sports Opportunity Fund (\$136,000), San José Permits On-Line (\$58,000), and a downward adjustment to the Coyote Valley Specific Plan and EIR (\$354,000) since this project did not generate as much savings as was anticipated in the development of the 2007-2008 Adopted Budget. After accounting for all rebudgets, adjusted net savings in this category totaled only \$1.1 million.

Environmental & Utility Services – 2006-2007 budget to actual savings realized in this category were \$224,000. The 2007-2008 Adopted Budget included a rebudget of \$240,000 for the Low Income Energy Assistance Fund. This rebudget is recommended to be adjusted downward slightly as part of this report since the project did not have the year-end savings that was originally projected. This CSA ended the year at budgeted levels; there were no year-end net savings.

Neighborhood Services – 2006-2007 budget to actual savings realized in this category were \$7.6 million. The 2007-2008 Adopted Budget included rebudgets totaling \$3.3 million, the most significant of which were \$1.1 million for the Parks Maintenance Non-Personal/Equipment Purchases project, \$617,000 for Hoffman/Via Monte Neighborhood Youth Center, \$463,000 for Animal Care and Services, and \$306,000 for the Neighborhood Revitalization Strategy. Additional net adjustments are recommended as part of this report totaling \$1.4 million and include the Community Action and Pride Grant Program (\$831,000) and the Strong Neighborhoods Initiative (Expanded) team (\$452,000). The additional adjustments are being offset by some downward adjustments that are recommended to account for lower actual project year-end savings than what was assumed as part of the 2007-2008 Adopted Budget. After accounting for all rebudgets, adjusted net savings in this category totaled \$2.9 million. However, it should be noted that this net savings of \$2.9 million results from grant-funded projects whose remaining balances do not need to be rebudgeted because either the project was completed or there is sufficient funding in 2007-2008 to fund program needs. Some of these projects are: After School Education and Safety – Elementary (\$1.7 million), After School Education and Safety – Middle (\$121,000), and CA 21st Century Learning Center Literacy Grant (\$158,000).

Public Safety – 2006-2007 budget to actual savings realized in this category were \$5.2 million. The 2007-2008 Adopted Budget included rebudgets for the majority of this amount totaling \$4.7 million, the most significant of which included \$1.0 million for the 2006 Super Urban Area Security Initiative - OES appropriation since none of the budgeted funding was

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Highlights of Non-Departmental Expenditures and Variances (Cont'd.)

- *City-Wide Expenses (Cont'd.)*

spent in 2006-2007, \$503,000 for the Automated Fingerprint ID System, and \$662,000 for the Domestic Violence Prevention Program. Additional net adjustments are recommended as part of this report to account for project year-end savings coming in less than was assumed when developing the 2007-2008 Adopted Budget. Funds remaining for the Office of Traffic Safety 2005-2006 San José Regional Street Racing grant (\$119,000) were not rebudgeted since these funds were no longer available because the grant expired. After accounting for all rebudgets, adjusted net savings in this category totaled only \$535,000.

Transportation & Aviation Services – 2006-2007 budget to actual savings realized in this category were \$629,000 and primarily reflect savings in the Contractual Street Tree Planting (\$307,000) and Parking Citations Processing (\$124,000). The rebudget of these project savings, as well as a few other projects, were approved as part of the 2007-2008 Adopted Budget. The remaining project savings in Contractual Street Tree Planting (\$72,000) and additional project savings in the Sidewalk Fund project (\$71,000) are recommended to be rebudgeted as part of this report. Because all project savings have been rebudgeted either as part of the 2007-2008 Adopted Budget or recommended as part of this report, there are no year-end project savings in this CSA.

Strategic Support – 2006-2007 budget to actual savings realized in this category were \$27.3 million. The 2007-2008 Adopted Budget included rebudgets totaling \$24.1 million, the most significant of which included \$6.5 million for General Liability Claims, \$5.5 million for Sick Leave Payments Upon Retirement, \$3.2 million for the Arts Stabilization Loan Fund program, \$2.0 million for Public, Educational, and Government (PEG) Access Facilities - Operations, and \$1.8 million for Public, Educational, and Government (PEG) Access Facilities - Capital. Additional net adjustments are recommended as part of this report totaling \$1.7 million and include, but are not limited to, \$1.6 million for Workers' Compensation Claims, and \$291,000 for Integrated Cashiering Solution, and \$299,000 for Human Resource Peoplesoft Hiring Module. There were several instances where actual year-end savings were less than projected, and as a result, downward adjustments are recommended in this report, the largest being to the Arts Stabilization Loan Fund (by \$606,000). After accounting for all rebudgets, adjusted net savings in this category totaled only \$1.5 million. The largest amount of savings not rebudgeted occurred in Insurance Premiums (\$297,000) and Sick Leave Payments Upon Retirement (\$772,000), with smaller amounts in various other appropriations.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Highlights of Non-Departmental Expenditures and Variances (Cont'd.)

- *Capital Contributions*

In 2006-2007, the General Fund provided funding totaling \$29.0 million for capital projects. Of this amount, approximately \$16.3 million was unexpended at year-end. The projects with the largest unexpended balances included:

<u>Capital Projects</u>	<u>(\$000s)</u>
COPS 2003-2004 Interoperable Communications	4,818
Maintenance Backlog – Street Resurfacing	3,000
Maintenance Backlog – Safety Enhancements	1,800
Watson Site Planning and Remediation	762
Facilities Infrastructure Maintenance Backlog	694
Tamien Station Skateboard Park Development	622
Parks and Recreation Bond Projects	588
Watson Site Clean-up and Restoration	539
Arena Repairs	447
Southside Community Center Portables	400
Mayfair Summer Aquatics	379
Towers Lane Improvements	174
City Hall Outstanding Needs	173
Hayes Mansion Parking Garage	163
All Other Projects	<u>1,755</u>
Total Unexpended Capital Projects	\$ 16,314

Of the \$16.3 million in unexpended funds, a large portion (\$9.3 million) was rebudgeted as part of the 2007-2008 Adopted Budget. An additional net total of \$6.1 million is recommended for rebudget as part of this report. After adjusting for rebudgets, the net savings in the General Fund Capital category was only \$840,000.

- *Transfers*

Actual Transfers to other funds totaled \$29.5 million with all transfers being completed as budgeted.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Highlights of Non-Departmental Expenditures and Variances (Cont'd.)

- *Reserves*

General Fund Reserve categories include Earmarked Reserves, the Contingency Reserve, and the Ending Fund Balance Reserve. On June 30, 2007, the total Reserve balance was \$158.7 million. Of this amount, \$101.8 million represented Earmarked Reserves, the largest of which were the Salary and Benefits Reserve (\$28.2 million); Development-Related Activities Reserves (\$15.3 million); 2007-2008 Future Deficit Reserve (\$10.6 million); Workers' Compensation Reserve (\$10.0 million); Enhanced Park Maintenance (\$7.9 million), and Future Capital Projects (FF&E) Reserve (\$6.8 million).

Almost all of the Earmarked Reserves were approved for rebudget to 2007-2008 (\$76.6 million) as part of the Adopted Budget and appropriated as reserves, or were used as solutions to the 2007-2008 General Fund shortfall (\$24.8 million). The Ending Fund Balance Reserve of \$28.1 million was allocated as part of the 2007-2008 Adopted Budget Beginning Fund Balance.

At the end of the year, the General Fund Contingency Reserve balance was \$28.8 million. During 2006-2007, the Contingency Reserve increased by a net total of \$1.8 million from the Adopted Budget level of \$27.0 million. The following adjustments were approved during the year:

- A decrease of \$15,000 to increase funding for the City of San José Volunteer Celebration.
- A decrease of \$100,000 to establish an appropriation for the Greater Terrace Drive Soil Testing Project.
- An increase of \$1,149,462 to bring the Contingency Reserve to 3% of the budget based on the Annual Report actions.
- A decrease of \$175,000 to provide funding to the Mexican Heritage Corporation to continue operation of the Mexican Heritage Plaza through June 30, 2007.
- An increase of \$102,586 to partially repay the loan (of \$175,000) to the Mexican Heritage Corporation.
- An increase of \$800,000 to maintain the Contingency Reserve at its 3% Council Policy Level (adjusted as part of the 2006-2007 Year-end Clean-up Actions).

As part of the 2007-2008 Adopted Budget, \$27.8 million of the \$28.8 million Contingency Reserve was rebudgeted. It is recommended that the remaining \$1.0 million that has not yet been carried over to 2007-2008 be rebudgeted as part of this report. An additional \$265,000 is also recommended to be added to the Contingency Reserve in 2007-2008 to maintain the 3% funding level.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Review of Overtime Expenditure Performance

A review of the overtime performance has been included in this report to provide an overall reconciliation for the year and to address the City Council's interest in this particular category. Overall, for all funds, the overtime budget of \$25.1 million produced year-end savings of \$2.9 million or 11.6%. The following table provides departmental overtime expenditure and variance information for 2006-2007.

TABLE F
2006-2007
Departmental Over-Time Expenditures and Variances

Department	Overtime Budget General Fund	Overtime Budget Other Funds	Modified Overtime Budget TOTAL	Overtime Actuals General Fund	Overtime Actuals Other Funds	Overtime Actuals TOTAL	Total Budget to Actuals Variance
Airport		\$ 388,709	\$ 388,709	\$ -	\$ 375,632	\$ 375,632	\$ 13,077
City Attorney	35,425	-	35,425	9,170	239	9,409	26,016
City Auditor	-	-	-	-	-	-	-
City Clerk	1,670	-	1,670	2,873	-	2,873	(1,203)
City Manager	106,779	-	106,779	43,454	-	43,454	63,325
Convention Facilities	-	209,000	209,000	-	359,488	359,488	(150,488)
Economic Development	14,743	-	14,743	2,646	-	2,646	12,097
Emergency Services	-	-	-	663	-	663	(663)
Environmental Services	-	846,802	846,802	(726)	1,194,816	1,194,090	(347,288)
Finance	33,222	29,463	62,685	71,486	18,925	90,411	(27,726)
Fire	11,231,239	-	11,231,239	8,497,646	-	8,497,646	2,733,593
General Services	350,973	183,217	534,190	390,245	329,110	719,355	(185,165)
Human Resources	26,069	-	26,069	9,616	3,852	13,468	12,601
Mayor & City Council	-	-	-	191	-	191	(191)
Housing		33,572	33,572		2,069	2,069	31,503
Independ Police Auditor	494	-	494	183	-	183	311
Information Technology	48,009	-	48,009	116,165	10,212	126,377	(78,368)
Library	158,387	-	158,387	62,136	18,127	80,263	78,124
Parks, Rec & Neigh Svcs	440,825	-	440,825	478,922	9,015	487,937	(47,112)
Planning, Bldg & Code Enf	472,549	-	472,549	440,430	1,920	442,350	30,199
Police	9,519,097	-	9,519,097	8,948,079	-	8,948,079	571,018
Public Works	5,577	1,806	7,383	86,920	4,374	91,294	(83,911)
Transportation	479,676	500,708	980,384	368,584	346,100	714,684	265,700
	\$ 22,924,734	\$ 2,193,277	\$ 25,118,011	\$ 19,528,683	\$ 2,673,879	\$ 22,202,562	\$ 2,915,449

While General Fund overtime expenditures in 2006-2007 represented only 3.6% of the total General Fund Personal Services expenditures, they do provide an important tool for departments to meet service demands. This is especially true given this City's long-standing philosophy of

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Review of Overtime Expenditure Performance (Cont'd.)

maintaining permanent staffing at the smallest level possible. Given the minimal staffing available, use of overtime is often the most cost efficient, or the only way that a department can respond to unforeseen variations in service requirements. For most departments, overtime is typically used to offset the impact of vacancies, to address increases in activity levels, to respond to seasonal workload increases, or to implement service improvements. In 2006-2007, the overtime allocations for several departments were exceeded as departments balanced service delivery needs with the resources available. While some overtime budgets were exceeded, all departments remained within their overall personal services appropriations.

A discussion of all departments' overages in excess of \$1,000, as well as overtime performance for the Police and Fire Department follows.

- The City Clerk's Office's overtime expenditures exceeded budget by \$1,200 (72.0%), primarily to offset the Office's staff vacancies that averaged 14%. The overtime was also necessary to ensure mandated services were provided as many labor-intensive processes remain part of the Office. Personal Services savings from the vacancies were sufficient to offset this overage, and the Office ended the year within their overall Personal Services budget.
- Convention Facilities overtime expenditures exceeded budget by \$150,000 (72.0%), primarily to offset the staff vacancies that averaged over 10%. Personal Services savings from the vacancies were sufficient to offset this overage, and the Department ended the year within their overall Personal Services budget.
- The Environmental Services Department's overtime expenditures exceeded budget by \$347,000 (41.0%), primarily to offset the staff vacancies in this Department that averaged over 10%. Personal Services savings from the vacancies were sufficient to offset this overage, and the Department ended the year within their overall Personal Services budget.
- The Finance Department's overtime expenditures exceeded budget by \$28,000 (44.2%) primarily to offset the high vacancy rate in the Department. Personal Services savings from these vacancies were sufficient to allow the Department to end the year within the overall budget estimate.
- The General Services Department's overtime expenditures exceeded budget by \$185,000 (34.7%) primarily to offset the impact of vacancies within their facilities and fleet management units. Personal Services savings from these vacancies was sufficient to allow the Department to end the year within budgeted levels.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Review of Overtime Expenditure Performance (Cont'd.)

- The Information Technology Department's overtime expenditures exceeded budget by \$78,000 or 163.2%. This increased level of overtime was due primarily to the increased need for staff time to complete the fiber cable connection between the Central Service Yard and the City's network. Personal Service savings from vacancies was sufficient to offset this overage and allow the Department to end the year within budgeted levels.
- The Parks, Recreation and Neighborhood Services Department exceeded their overtime budget by \$47,000 or 10.7%. The department retained an average of over 100 vacant benefited positions throughout the year and this was a key factor that necessitated the use of overtime to maintain critical services such as parks maintenance. In addition, a limited compensation time buy back policy was instituted in the Department in order to avoid unacceptable impacts to service levels due to the vacancies in both the Parks and Animal Services Divisions. Overall, the Department's personal services expenditures were 7.5% (\$3.3 million) less than budgeted as a result of salary savings from vacant positions.
- The Public Works Department's overtime expenditures of \$91,000 exceeded budget by \$84,000 or 1,137%. The over expenditure is primarily due to higher than budgeted Development Fee Program expenses. The higher than anticipated expenditures were offset by salary savings from numerous vacant positions, which contributed to the need for overtime work.
- Fire's overtime expenditures of \$8.5 million ended the year \$2.7 million below the modified budget level of \$11.2 million, offset by overages of \$809,000 in full-time salaries. Overtime usage is largely attributed to fulfilling minimum staffing requirements. A lower than budgeted level of sworn absences and vacancies experienced during the year resulted in lower overtime usage, and higher full-time salary costs. Fire's relief to overtime balance will be revisited, and adjustments made as appropriate, through the annual overtime report to the Public Safety, Strategic Support and Finance Council Committee scheduled for January 2008.
- The Police Department's overtime expenditures of \$8.9 million were 6.0% below the modified budget of \$9.5 million; however, \$400,000 of the \$600,000 in savings was due to lower than budgeted Orange Alert Level overtime staffing needs at the Airport. Implementation of Department guidelines on overtime usage and proactive management of the overtime budget enabled the Department to keep expenditures below the budgeted allocation.